

GEORGE JEPSEN
ATTORNEY GENERAL



55 Elm Street
P.O. Box 120
Hartford, CT 06141-0120

Office of the Attorney General
State of Connecticut

August 6, 2015

VIA ELECTRONIC MAIL AND FACSIMILE

Darlene Stromstad, President & CEO
Greater Waterbury Health Network, Inc.
64 Robbins Street
Waterbury, Connecticut 06708

Jonathan Spees, Senior Vice President
Prospect Medical Holdings, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, California 90025

**Re: Greater Waterbury Health Network, Inc. – Proposed Asset Purchase by
Prospect Medical Holdings, Inc. - OHCA Docket No. 15-31217-486 and Attorney
General Docket No. 15-486-02**

Dear Ms. Stromstad and Mr. Spees:

After our review of the certificate of need determination letter submitted by you, dated July 16, 2015, we have determined that the proposed transfer of certain assets of the Greater Waterbury Health Network, Inc. ("GWHN") to Prospect Medical Holdings, Inc. ("PMH") requires approval pursuant to Conn. Gen. Stat. § 19a-486 et seq.

Accordingly, the parties to the proposed asset purchase (the "Asset Purchase") shall submit to the Commissioner of Public Health (the "Commissioner") and to the Attorney General, within sixty (60) days of the date of the mailing of this application form, an application for approval of the Asset Purchase. Please mail two (2) complete hard copies and two (2) complete electronic copies of the application for approval to the following address:

Office of the Attorney General
55 Elm Street, P.O. Box 120
Hartford, Connecticut 06141-0120
Attn: Gary W. Hawes, AAG

Please mail seven (7) complete hard copies and three (3) complete electronic copies of the application for approval to the following address:

Commissioner of Public Health
410 Capitol Avenue
Hartford, Connecticut 06134
Attn: Kevin Hansted, Staff Attorney

We request that your application for approval include the following information (Conn. Gen. Stat. § 19a-486a(c)), address the following issues (Conn. Gen. Stat. §§ 19a-486c and 19a-486d), and be presented in substantially the following format:

1. Identify the contact information for GWHN and PMH, including the individual(s) to whom the Attorney General and the Department of Public Health shall submit bills for contracts with experts or consultants.
2. Provide an executive summary of the application for approval.
3. Describe the terms of the proposed Asset Purchase. This section should include, but is not limited to:
 - a. descriptions of GWHN, PMH, the assets to be transferred pursuant to the Asset Purchase, any assets excluded from transaction, the assumed and excluded liabilities of the Asset Purchase, any commitment to spend funds on capital items, and any plan to expand or acquire new programs or services;
 - b. a financial analysis of the proposed transaction that identifies the source of funding for PMH's initial purchase price, the uses of the proceeds of the transaction, and the valuations of included and excluded assets; and
 - c. a balance sheet of the proposed transaction that lists the assets and liabilities of the nonprofit hospital as of the most recent quarter end, and then sets forth the projected balance sheets of the surviving nonprofit entity, if any, and of the for-profit purchaser that reflect the agreement of the parties regarding the assets and liabilities retained and assumed by the respective parties post-close.
4. Provide copies of all contracts, agreements, memoranda of understanding, and pro forma financial statements relating to the proposed Asset Purchase.
5. Describe the due diligence undertaken by GWHN in deciding to enter into the Asset Purchase. This section should include, but is not limited to, considerations regarding the current financial condition of GWHN and any projected financial condition of GWHN, any professional assessments of or reports regarding GWHN or PMH, any and all alternatives explored by GWHN or other offers received by GWHN, the reasons for rejecting such alternatives and offers, GWHN's selection of PMH, and the specific terms of the Asset Purchase. In addition, the parties should discuss the due diligence in obtaining the fairness evaluation required by Conn. Gen. Stat. § 19a-486a(c)(5), including providing a copy of said independent expert's resume or other documentation of his or her qualifications and describing the process undertaken to identify and retain this person as an independent expert.

6. Describe any and all potential conflicts of interest between, among, or pertaining to, at a minimum, any and all board members, officers, key employees, and experts of GWHN, PMH, any other party to the transaction, and any person or entity that performed assessments requested in this application. In addition, describe the due diligence taken to determine the existence of any conflicts of interest, including how GWHN and PMH defined "conflict of interest" for purposes of the response to this question.
7. Provide an assessment of the fair market value of the transaction, including, but not limited to, a discussion regarding whether the fair market value of GWHN's assets has been manipulated. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment. Provide copies of all documents and statements, financial and otherwise, in support of this assessment.
8. Provide an assessment of whether the transaction will place GWHN's assets, including but not limited to Waterbury Hospital, at unreasonable risk. Provide copies of all documents and statements, financial and otherwise, in support of this assessment. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment.
9. Provide an assessment of whether any managerial contracts to be entered into are for reasonable fair value. Provide copies of the managerial contracts and of all documents and statements, financial and otherwise, in support of the fair value assessment. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment.
10. Describe the entity to which the fair market value of GWHN's assets will be transferred, including the funding of the entity, its corporate structure, governance and membership, and the charitable purpose of the entity. Provide copies of documents related to the creation, structure, and purpose of the entity.
11. Identify any and all assets of GWHN that are subject to a charitable use restrictions imposed by a donor and the intended handling of those assets as a result of the proposed Asset Purchase. Please provide a listing of these assets in Microsoft Excel format. Also, please provide copies of the original gift instruments for each gift identified. Only one hard copy of the gift instruments needs to be produced to the Attorney General.
12. Provide copies of all correspondence, memoranda, and any other documents that include the terms of any other offers to transfer assets or operations or change control of operations received by the Hospital.

13. Provide a copy of a fairness evaluation by an independent person who is an expert in such Asset Purchases that includes the expert's evaluation of each of the criteria set forth in Conn. Gen. Stat. § 19a-486c(a). Also provide copies of the information and documents relied upon by the expert in the preparation and issuance of the fairness evaluation.
14. Please provide a copy of the transcript for the informal hearing required by Conn. Gen. Stat. § 19a-486a(c).
15. Explain how GWHN determined the need for the Asset Purchase and discuss the benefits of this Asset Purchase for Waterbury Hospital (the "Hospital") (provide discussion on history and time-line).
16. Provide a listing of the Hospital's current service lines and service locations and describe any planned changes to either the service lines or service locations as a result of the Asset Purchase. Provide an explanation for each change and detail how the hospital's affiliation with PMH will aid in service line development.
17. Describe the existing populations served by the Hospital and how the Asset Purchase will affect these populations. Include demographic information.
18. How will the for-profit nature of PMH affect the provision of health care in the community?
19. Provide a transition plan for the Asset Purchase and describe how GWHN and PMH (collectively, the "Applicants") will ensure continuity of care and hospital services through this plan.
20. Understanding that the proposal is for PMH to exercise ownership over the Hospital, how will care be coordinated care between the Hospital and its various affiliates? Please explain in detail how care coordination efforts will be aided by the proposed Asset Purchase (i.e., how they will be different from GWHN's present efforts). Provide any written plans documenting this coordinated approach to care for the patient population served.
21. Provide a description of the relationship between the proposal and the Statewide Health Care Facilities and Services Plan.
22. Please explain how the post transaction GWHN will address the needs of service area residents with respect to prevention and treatment of diseases and conditions in relation to the Hospital's most recent Community Health Needs Assessment ("CHNA") and the priority of needs listed therein. Please provide a copy of the most recent CHNA.
23. Provide a description of plans that the Applicants will implement to control cost, such as discharge care coordination, implementation of electronic medical records and emergency department triaging to the appropriate level of care. In responding to this

question, report any anticipated savings from the following expense categories for the Hospital: salaries and wages, fringe benefits, contractual labor fees, medical supplies and pharmaceutical costs, depreciation and amortization, bad debts, interest expense, malpractice expense, utilities, business expense and other operating expenses.

24. Provide a description of the Applicants' plans to continue to provide services to the uninsured and underinsured. In responding to this question, please describe any changes to the Hospital's current charity care, uncompensated care and financial assistance policies and procedures, and hospital bed funds that will result from the Asset Purchase. Describe any plans Applicants have to work with other providers in the community, such as federally qualified health centers or community health centers, to provide specialty care to patients, or low cost programs that the Applicants will provide in the area that are tailored toward the uninsured or underinsured.
25. Submit a list of all key professional, administrative and clinical department heads related to this proposal. Additionally, provide a copy of the Curriculum Vitae of each individual listed.
26. Provide evidence as to how the Asset Purchase will improve quality, accessibility and cost effectiveness of health care delivery in the region, including but not limited to, provision of or any change in the access to services for Medicaid recipients and indigent persons.
27. Provide the corporate organizational chart prior to and after the proposed Asset Purchase, including all affiliates. For the organizational chart that depicts the post-Asset Purchase structure, working upward on the chain of ownership from the Hospital, please: (i) describe the nature of the ownership and control that each entity has in the entity directly below it; (ii) describe the major business activities/functions of each entity; (iii) provide the principal place of business address for each entity; and (iv) provide the name and business address of each individual currently serving as a member of the governing body of each entity.
28. Please provide the date on which the Hospital filed audited financial statements with OHCA. Applicants may reference these statements in responding to questions. In addition, provide a copy of PMH's most recent audited financial statements.
29. List all funding or financing sources for the \$100,000,000 in project costs (the "Project Costs") estimated for this acquisition by PMH. Provide applicable details such as interest rate; term; monthly payment; pledges and funds received to date; letter of interest or approval from a lending institution.
30. Indicate whether PMH has developed a plan to invest in facility improvements, general upgrades and renovations, deferred maintenance, and initiatives to develop, expand or acquire new programs or services, and to support the recruitment of medical staff at the Hospital (a "Capital Plan"). If yes, please provide a copy of the Capital Plan.

31. Please describe the extent to which the Project Costs related to this proposal may be adjusted for each of the following:
 - a. outstanding indebtedness;
 - b. pension liabilities;
 - c. retiree health benefits;
 - d. captive insurers;
 - e. capital leases;
 - f. asbestos abatement; and
 - g. joint venture interests that may not transfer.

32. How, if at all, will non-approval by any of the joint venture interests referred to in Question 31(g) above affect the Asset Purchase?

33. Please explain in detail the terms of any Capital Plan and in particular:
 - a. how funds will be allocated for these purposes, including any projected annual amounts;
 - b. the capital projects for the Hospital that are deemed top priorities by the Applicants;
 - c. the service improvements for the Hospital that are deemed top priorities by the Applicants;
 - d. a list of capital projects and service improvements that are expected to be carried out within the first three years following the closing date; and
 - e. discuss the ability of GWHN to address items listed in subsections 31(b) and 31(c) without the approval of this proposal.

34. Describe in detail how this proposal will affect the financial strength of the State's health care system and will be financially feasible.

35. Please provide the current payer mix for the Hospital and the projected payer mix for the Hospital after the Asset Purchase (based on the number of patients, not based on revenue) in the following reporting format:

Table 1: Patient Population/Payer Mix

Payer	Current		Projected					
	FY 20__**		FY 20__**		FY 20__**		FY 20__**	
	Discharges	%	Discharges	%	Discharges	%	Discharges	%
Medicare*								
Medicaid*								
CHAMPUS & TriCare								
Total Government								
Commercial Insurers								
Uninsured								
Workers Compensation								
Total Non- Government								
Total Payer Mix								

* Includes managed care activity.

** Fill in years. Ensure the period covered by this table corresponds to the period covered in the projections provided. New programs may leave the "current" column blank.

36. Provide the assumptions used to project the patient population/payer mix after the proposed Asset Purchase.

37. Please provide one year of actual results and three years of projections of total revenue, expense and volume statistics without, incremental to and with the CON proposal in the following reporting format:

- a. Financial Worksheet (C) – for the Hospital only (not inclusive of affiliates), GWHN and PMH without the CON project (columns 1, 2 5, 8 & 11) with the CON project and incremental to the CON project (remainder columns); and

- b. Submit Financial Worksheet (C) using the same page and print layouts (size, font, page orientation, margins, etc.) as provided by OHCA.

Note that the actual results for the fiscal year reported in the first column must agree with the GWHN and the Hospital's audited financial statements. The projections must include the first three full fiscal years of the project.

38. Provide the assumptions utilized in developing Financial Worksheet (C) (e.g., full-time equivalents, volume statistics, other expenses, revenue and expense percentage increases, project commencement of operation date, etc.).
39. Explain any projected incremental losses from operations contained in the financial projections that result from approval of the Asset Purchase and operation of the Hospital and GWHN.
40. Please describe any anticipated change to existing reimbursement contracts with payers (e.g., Medicare, Medicaid, commercial) as a result of the Asset Purchase. Is it assumed in the financial projections that Applicants will willingly negotiate with the payers that GWHN currently has contracts with?
41. Please explain in detail how the proposed Asset Purchase will be able to assure satisfaction of GWHN and/or the Hospital's debt and pension obligations.
42. Please address the following regarding staffing at the Hospital by completing "Staffing Attachments I&II."
 - a. Provide the levels of staffing for fiscal year ("FY") 2015 broken out as follows:
 - i. Average patient to nursing staff ratios per shift (a.m., p.m. and overnight) for each department and/or unit of the Hospital;
 - ii. The same information as provided in subsection (a)(i) above showing the RN to patient ratio only; and
 - iii. The average nursing hours per patient day (NHpPD) for each department and/or unit of the Hospital (all nursing staff should be included in the calculation of nursing hours).
 - b. Provide the projected levels of staffing by department and/or unit for the Hospital for the first three (3) full FYs following approval of the Asset Purchase broken out as follows:
 - i. Average patient to nursing staff ratios per shift (a.m., p.m. and overnight) for each department and/or unit of the Hospital; and
 - ii. The same information as provided in subsection (b)(i) above showing the projected RN to patient ratio only.

43. For the Hospital, provide a detailed explanation by department and/or unit as completed by the Applicants in Staffing Attachment I, to reconcile any differences between FY 2015 nursing staff levels and those projected for the first three (3) full FYs following approval of the Asset Purchase.
44. For the Hospital, describe any other hospital-employed or hospital-contracted staff besides nursing staff (e.g., hospitalists, mid-level providers, therapists, etc.) that were engaged to provide direct patient care at the hospital (collectively, "Ancillary Caregivers") for FY 2015 broken out as follows:
 - a. The type of Ancillary Caregivers and the department and/or unit to which such staff was assigned;
 - b. The average number of hours per week that such Ancillary Caregivers provided patient care for the department and/or unit; and
 - c. For the first three (3) full FYs following approval of the Asset Purchase, the average number of hours per week that such Ancillary Caregivers are projected to provide patient care for each department and/or unit of the hospital described in subsection (a) above.
45. For the Hospital, provide a detailed explanation by department and/or unit to reconcile any differences between the average number of hours per week that the Ancillary Caregivers described in Question 44 above provided patient care in FY 2015 with those projected for the first three (3) full FYs following approval of the Asset Purchase.
46. For the Hospital, provide evidence that the proposed staffing for nursing staff and Ancillary Caregivers for the first three (3) full FYs following approval of the Asset Purchase meet all Connecticut Department of Public Health ("DPH") staffing requirements and assure continued access to high quality and affordable health care. Be sure to cite the appropriate DPH regulations and/or other industry benchmarks as applicable.
47. Applicants are required to provide copies of the most recent CMS statements of deficiencies and plans of correction (CMS Form 2567) for all hospitals owned by PMH. Provide these documents in an electronic format only. PDF file on a CD to accompany the responses. No paper copies required.
48. Provide a copy of, and describe any changes to, any of the following policies and procedures that will be in place at the Hospital if the Asset Purchase is approved:
 - a. Hospital collection policies (including charity care and bad debt);
 - b. annual or periodic review and/or revision to the Hospital's pricing structure (the chargemaster or pricemaster); and

- c. the annual or periodic market rate assessment for the Hospital.
49. The Hospital has provided OHCA with their annual FY 2015 pricemasters, which were most recently updated for the month of June 2015. With respect to this submission please answer the following:
- a. Will the pricemaster change as a result of the Asset Purchase?
 - b. If so, please identify any anticipated increases or decreases to the pricemaster as a result of the Asset Purchase.
 - c. Please quantify the overall percentage increase or decrease in the pricemaster that is anticipated in subsection (b) above and explain the rationale for such change.
50. Please provide monthly financial statistics reports for the months of April, May and June FY 2015, current month and year-to-date, and comparable period for FY 2014 to OHCA, for the Hospital only, GHWN and PMH with the Application and thereafter on a monthly basis for each month (formatted side by side), until a public hearing in this matter is held. The following financial measurements/indicators should be addressed in the reports:

Monthly Financial Measurement/Indicators

A. Operating Performance
Operating Margin
Non-Operating Margin
Total Margin
Bad Debt as % Gross Revenue
B. Liquidity
Current Ratio
Days Cash on Hand
Days in Net Accounts Receivables
Average Payment Period
C. Leverage and Capital Structure
Long-term Debt to Equity
Long-term Debt to Capitalization
Unrestricted Cash to Debt
Times Interest Earned Ratio
Debt Service Coverage Ratio
Equity Financing Ratio
D. Additional Statistics
Income from Operations
Revenue Over/(Under) Expense
EBITDA
Cash from Operations

Cash and Cash Equivalents
Net working Capital
Unrestricted Assets
Credit Ratings (S&P, FITCH and Moody's)

51. For the Hospital, provide a copy of its IRS Form 990 for the for tax year ending September 30, 2014 and with respect to the amounts listed on each line item within Part 1, Section 7 of Schedule H ("Financial Assistance and Certain Other Community Benefits at Cost"), provide a projected amount for each line item for the first three (3) tax years following the Asset Purchase. Please note that it is understood that the Hospital will not file an IRS Form 990 following the Asset Purchase. This question is directed at determining the amount of programmatic and financial support that the Hospital will continue to provide in these community benefit categories. In providing this information, please elaborate on the specific activities included and how the projections demonstrate PMH's commitment to maintain and adhere to GWHN's current policies regarding charity care, indigent care, community volunteer services and community outreach services or to adopt other policies that are at least as favorable to the community as GWHN's current policies.
52. For the Hospital, with respect to the amounts listed on each line item within Part II of Schedule H of the Hospital's IRS Form 990 for tax year ending September 30, 2014 ("Community Building Activities"), provide a projected amount for each line item for the first three (3) tax years following the Asset Purchase. Please note that it is understood that the Hospital will not file an IRS Form 990 following the Asset Purchase. This question is directed at determining the amount of programmatic and financial support that the Hospital will continue to provide in these community building activity categories. In providing this information, please elaborate on the specific activities included and how the projections demonstrate PMH's commitment to maintain and adhere to GWHN's current policies regarding charity care, indigent care, community volunteer services and community outreach services or to adopt other policies that are at least as favorable to the community as GWHN's current policies.
53. Please discuss whether the Asset Purchase is expected to achieve an improved negotiating position with vendors and/or payers and, if such an improved negotiating position is anticipated, how it will translate into tangible savings for the consumer of health care services. Provide a response that both describes any anticipated improvements in detail and quantifies the expected results for the consumer.
54. Provide details of plans to be put in place to ensure the proposed health care services provided by PMH adhere to the National Standards on Culturally and Linguistically Appropriate Services (CLAS) to advance health equity, improve quality and help eliminate health care disparities in the projected service area. (For more details on CLAS standards see <http://minorityhealth.hhs.gov/Default.aspx#sthash.U320zUXq.dpuf>.)
55. What criteria will PMH use to offer current employees employment post transaction or in any new entities that may be formed as a result of this proposal? For those

employees that will be employed post transaction by the Applicants, what is the projected difference in salary for current employees and similarly situated employees at other hospitals operated by PMH in similar markets?

56. Please provide information regarding whether any health care providers or insurers have an ownership interest in PMH.
57. Please provide information on the relationship, if any, that PMH's existing medical group segment will have to this proposal.
58. Please identify PMH's five (5) most recent acute care hospital acquisitions and, for each acquisition, describe in detail how:
 - (a) the acquisition improved access to care for the hospital's service area;
 - (b) the acquisition improved the quality of health care for the hospital's service area;
 - (c) the acquisition lowered the cost of health care for the hospital's service area; and
 - (d) with respect to subsections (a) through (c) above, please demonstrate these improvements/cost reductions through benchmarks and other data that are commonly used in the hospital industry.

After receipt of your application for approval, the Commissioner and the Attorney General shall review the submission to determine whether the application for approval is complete. If not, the Commissioner and the Attorney General shall provide written notice of any deficiencies within twenty (20) days of receipt of the application for approval.

Should you have any questions regarding this application form, your application for approval, or any other issues relating to the Commissioner's and Attorney General's review, please do not hesitate to contact either Steven Lazarus at the Department of Public Health (860-418-7012; Steven.Lazarus@ct.gov) or Assistant Attorney General Gary W. Hawes at the Office of the Attorney General (860-808-5020; gary.hawes@ct.gov).

Very truly yours,



Perry Zinn Rowthorn
Deputy Attorney General



Janet M. Brancifort, MPH
Deputy Commissioner, DPH

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Attachments

cc: Steven W. Lazarus, Associate Health Care Analyst, OHCA
Gary W. Hawes, Assistant Attorney General, OAG

